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SUBJECT: IRAN AND ENERGY THE FOCUS OF RUSSIAN-GERMAN TALKS

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[1](#)B. BERLIN 1132

Classified By: Ambassador William J. Burns. Reasons: 1.4(B & D).

[1](#)1. (C) Summary: President Putin and Chancellor Merkel focused on Iran and energy issues during largely positive talks on April 26-27 in the Siberian city of Tomsk. Putin's message to Merkel on Iran was that Moscow was willing to put diplomatic pressure on Tehran but was extremely uneasy that UN Security Council action would be a slippery slope that could eventually lead to the use of force. Russian experts were skeptical about Iran's nuclear progress. German Ambassador Schmid told the Ambassador that Putin had underlined to Merkel that Russia would be a reliable energy supplier. Publicly, Putin angrily attacked European critics of Gazprom's expansion plans and welcomed a deal between Gazprom and BASF that would allow Gazprom to expand into the European retail market while giving BASF interests in a Siberian gas field. Merkel raised Belarus and Russia's implementation of its NGO law; Putin responded by arguing that isolation would not benefit democratic development in Minsk and claimed that the GOR was responsive to Russian civil society. End Summary.

THE SONG REMAINS THE SAME

[1](#)2. (C) President Putin and Chancellor Merkel headed up large inter-ministerial teams that met for talks for two days in Tomsk, a relatively prosperous Siberian city whose natural-resource based economy is complemented by a large academic community. According to press reports, the GOR selected Tomsk as the venue of the eighth annual Russian-German consultations in order to highlight investment opportunities outside of Moscow and St. Petersburg. German Ambassador Schmid, who participated in some of the talks, told the Ambassador that the leaders met for several rounds, including an extended one-on-one and two hours in a restricted format (Putin, Merkel, Russian Presidential Foreign Affairs Advisor Sergey Prikhodko and Merkel's Foreign Policy Advisor Christoph Heusgen). Foreign Ministers Lavrov and Steinmeier met twice separately as well. In addition, Tomsk residents. Newspapers contrasted the increasingly heated dispute between Gazprom and some of its European critics about the firm's market power and expansion plans and the ease with which a major gas deal was reached at the summit between Gazprom and German chemical giant BASF. Putin's sharp response to Gazprom's critics at the wrap-up also received attention. Putin charged that Europeans were trying to resuscitate the need for international agreement and a discussion of future steps following the April 28 IAEA report. Schmid told the Ambassador that the Germans did not hear much that was new from the Russians during the talks. Moscow's position was still shaped largely by its "Iraq experience," with Russia fearing that action in the UN Security Council would create a slippery slope leading to the use of force. Russia was willing to use diplomatic pressure, but remained opposed to sanctions.

[1](#)5. (S) On the margins of the talks, the Germans and Russians exchanged intelligence assessments about Iran's program. The Russian experts were more skeptical about the

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status of the program and had concluded that Iran had not yet mastered running a centrifuge cascade. They were not convinced that Tehran was any closer than 6-8 years from developing a nuclear weapon. Russian diplomats were looking to the May 2 Political Directors meeting and the May 9 Foreign Ministers meeting to determine next steps, but the Germans concluded that it was going to be a tough slog to persuade the Russians to go much beyond cajoling Tehran.

BIG ENERGY DEAL

[1](#)6. (C) Schmid said that energy discussions had been more cordial and the atmosphere much easier than the Germans

expected, given the raft of angry public statements lately by Gazprom and Putin about energy security. There was no banging on the table, and the Russians had gone out of their way to emphasize their reliability as suppliers. Putin told Merkel he appreciated the straightforward way in which the Germans conducted energy discussions, in contrast to some in the U.S. who were attempting to "contain" Russia's energy ambitions.

17. (C) The gas deal between Gazprom and BASF highlighted the extensive economic talks at the summit, with both sides heralding the USD 33 billion annual trade turnover (Russian figures for 2005). Schmid confirmed press stories that under the gas deal, Gazprom will increase its stake in the Wingas energy trading unit of BASF (and gain a possible role in German retail sales) to one share short of majority control. In exchange, BASF through its Wintershall subsidiary would gain almost a 25 percent share in a large untapped Siberian natural gas field, the Yuzhno-Russkoye deposit. Another expected deal, between E.ON, the former German natural gas monopoly, and Gazprom was unexpectedly delayed. In addition to energy talks, the Russian press claimed that Volkswagen was interested in opening an assembly plant in Russia by 2007 to produce Golf and Skoda-Octavia models.

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NEIGHBORHOOD AND DEMOCRACY

18. (C) According to Schmid, the Germans brought up Belarus with the Russians, drawing a standard Russian response arguing that isolation would only play into the hands of the authoritarians. Moscow did confirm that it intended to raise the price of gas it supplies to Minsk to market rates. There was a pointed discussion on the CFE Treaty; Moscow argued that it had acted in good faith in reaching an agreement last year with Tbilisi to withdraw its military bases and was unable at this point to withdraw ammunition and troops from Transnistria. The Russians also urged increased efforts to address narcotics trafficking from Afghanistan.

19. (C) Merkel raised the NGO law with Putin, pointing out that the West would closely monitor the law's implementation. Putin responded that prior Russian law on NGOs had been inadequate and that Moscow had to regularize the status of NGOs. He pointed out that the Russian government was responsive to civil society pressure, noting his decision the day before to change the route of the Eastern Siberian Pacific Ocean pipeline to address environmental concerns.

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COMMENT

10. (C) The main message from this summit was one of continuity. Despite some static in Putin's first meeting with Merkel, the sides now seem focused on the economic and particularly the energy ties that drive the relationship. Russia has invested heavily in its bilateral ties, as reflected in the massive effort needed to move half the Cabinet to Tomsk for these meetings, and it will remain willing to engage at all levels to protect its interests. Merkel's efforts to rebalance Germany's relationship will make her a more challenging interlocutor for Putin than former Chancellor Schroeder was on certain issues, such as democracy or "the neighborhood," but we see no reason to doubt that Germany will remain committed to a close relationship with Russia. As the German DCM told us in a separate meeting, "The talks in Tomsk indicate that the German-Russian 'strategic partnership' will continue, despite the Chancellor's more critical approach."

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